Pine Point Mines Limited

HEAD OFFICE: TRAIL, B.C.

Annual Report, 1970

DIRECTORS

C. H. B. Frere
R. Hendricks
B. E. Hurdle
R. A. MacKimmie, Q.C.
D. D. Morris
A. M. Murray
J. H. Salter
J. B. Smith
W. M. Young

OFFICERS

D. D. Morris - - - - - - - - - - President
J. H. Salter - - - - - - - - - Vice-President
M. H. Mason - - - - - - - - - - Secretary

Transfer Agent and Registrar

THE ROYAL TRUST COMPANY,
VANCOUVER, TORONTO, CALGARY

Auditors

Thorne, Gunn, Helliwell & Christenson
Chartered Accountants
VANCOUVER, B.C.

20th Annual Report of the Directors to the Shareholders

The directors are pleased to report that development and operation of the Company's property at Pine Point, Northwest Territories during 1970 proceeded very satisfactorily. Cominco Ltd. continued to act as manager and agent for the Company.

The Company's financial statements and auditor's report to the shareholders are included following the end of this report.

Financial

Net earnings for 1970 were $20,784,000 or $4.60 per share compared with $18,461,000 (restated) for 1969 or $4.09 per share, an increase of 13%. 1969 earnings have been restated to reflect a change in the method of calculating depreciation, as more fully described in the notes to the financial statements. The average price received for zinc concentrate showed a minor improvement, while that received for lead concentrate decreased about the same amount. A loss of about $800,000 or almost 5% of export revenue arose from the floating of the Canadian dollar in June. Comments on increased costs will be found under "Operations" below.

Net capital expenditures were $1,884,000 as compared with $2,425,000 last year and were mainly for additional living quarters, extension of shops and mobile equipment additions.

Changes in working capital during the year are set out in the statement of source and application of funds, included in the financial statements.

Regular dividends of $4.00 and a special dividend of $3.00 a share were paid in 1970 compared with $4.00 a share paid in 1969. In addition a special dividend of $2.00 a share was declared in 1970 payable in January 1971. The special dividends not only recognized that available cash was in excess of anticipated needs, but also were influenced by provisions of the Proposals for Tax Reform relating to taxation of distributions from retained earnings. Income from the Sphinx mine is exempt from income tax and royalty until December 31, 1971.

Sales

Sales taken into revenue increased 10% over those for the previous year to $47,301,000 net of delivery expenses mainly reflecting increases of 63,000 tons and 15,000 tons in sales of shipping grade ore and zinc concentrate respectively. The average price received for zinc concentrate was up and that for lead concentrate decreased, both by about 3%. Prices of both metals held steady for the first half of the year but a significant drop of 3c/lb. of lead in the U.S. and 2c/lb. in Canada and ½c/lb. of zinc occurred during the last half of the year. At year-end a general weakness persisted in all markets for both metals and the Canadian lead price dropped 1c early in January. As already mentioned, the floating of the Canadian dollar has reduced export revenue by about 5% since May 31st. Rail freight costs for transportation of product to market were $17,800,000 including special transportation charges of $2,000,000 as compared with $15,500,000 last year, including the same level of special charges. Sources of 1970 sales revenue were as follows: ore 7%, lead concentrate 39%, and zinc concentrate 54%. Of the total tonnage of ore and concentrates sold 62% was refined into metal in Canada, chiefly by Cominco, 24% in the United States, 7% in Japan and 7% in Europe and India.

Operations

The operation continued at a satisfactory rate during the year. Ore treated in the concentrator was 3,860,000 tons at average grades of 3.0% lead and 7.1% zinc as compared with 3,605,000 tons at 3.2% lead and 7.4% zinc in 1969. A total of 135,000 tons of lead concentrate at 75.6% lead and 451,000 tons of zinc concentrate at 55.9% zinc was produced by the concentrator. High grade ore encountered in small pods during the normal mining program was greater than the demands at the concentrator, and was shipped to Cominco. This amounted to 92,600 tons at a grade of 14.5% lead and 21.5% zinc, of which 74,000 tons were sold and 18,600 tons were in stock at the year-end.

The stripping program was increased during the year to bring the development of pits more in line with the property strip ratio. A total of 5,018,000 tons of overburden and 2,262,000 tons of waste rock were removed from eleven pits. As mentioned in previous years the extent of the operation has increased to a radius of between seven and eight miles from the concentrator. The test stoping program was well under way at the year-end to assess the economics of underground mining. The pit dewatering program stabilized at about the same rates as in 1969. There are 36 wells pumping a total of 22,700 gallons per minute.

An increase of some $2.5 million in operating costs was incurred due to the spreading area of operations, an increase of 6,100 tons daily in material handled and an additional $800,000 for an extended exploration program.

...nes Limited

(... laws of Canada)

...ECEMBER 31, 1970

(...ures for 1969)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969 (*restated— note 2)
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 2,334,000	$ 2,127,000
Income taxes	38,000	994,000
Dividends payable	9,033,000	—
	11,405,000	3,121,000
HOUSING MORTGAGES	190,000	196,000
DEFERRED INCOME TAXES	3,700,000	3,300,000*
SHAREHOLDERS' EQUITY		
Capital:		
Authorized—5,000,000 shares of no par value; issued and fully paid 4,516,363 shares	29,161,000	29,161,000
Retained earnings	26,120,000	45,983,000*
	55,281,000	75,144,000*
CONTINGENT LIABILITY (note 4)		
	$70,576,000	$81,761,000*

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Pine Point Mines Limited as at December 31, 1970 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change in accounting practice explained in note 2, with which change we concur.

Vancouver, B.C.
February 19, 1971

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1970

1. SALES

Sales are net of freight, handling and other deductions.

2. DEPRECIATION

Studies during 1970 of depreciation rates led the company to change to a thirteen year write off from the previous basis of depreciating all facilities relating to the original mine and to the new Sphinx mine over the estimated lives of those mines. Continuing exploration and development has added substantially to the original ore reserves and the revised basis provides for a more realistic matching of costs and revenues.

As a result, net earnings for 1970 have increased by $689,000. To facilitate comparison reported net earnings for 1969 have been restated and have increased by $586,000. The net credit of $1,270,000 to retained earnings reflects the retroactive application of the revised practice from the commencement of operations to the end of 1968.

3. DEPLETION

Depletion is being provided annually to absorb the cost of mining properties and development evenly over the estimated lives of the mines as determined at the dates they came into production.

4. INCOME TAXES

Income from operation of the Sphinx mine is exempt from tax until December 31, 1971.

An amendment in October 1969 to the Canadian Income Tax Regulations could be interpreted by taxation officials in a manner which would materially reduce the tax depletion allowances for the company for 1969 and subsequent years, because it is associated through Cominco Ltd. with subsidiaries of Canadian Pacific Investments Limited. Cominco Ltd. and the company have initiated discussions with the Federal Government to remove the possibility of any such additional tax levy because they are convinced that a reduction in depletion allowances is not intended and would be grossly inequitable. Should any such tax be assessed, legal counsel advises that there are grounds for defense in the courts. No provision has been made in these financial statements for the contingent liability for these taxes which, if levied, would reduce earnings by an estimated amount of $1,000,000 for 1970 and $1,700,000 for 1969.

5. DIRECTORS' AND OFFICERS' REMUNERATION

Production, selling and general expenses include total remuneration of $15,000 to nine (all) directors. The three officers received no remuneration from the company. There were two officers who were also directors.

SEVEN-YEAR SUMMARY

(All dollar amounts in thousands, except per share figures)

	1970	1969	1968	1967	1966	1965	1964
EARNINGS							
Sales of all products	$47,301	$42,917	$38,913	$42,701	$42,636	$26,482	$ 1,057
Earnings from operations	29,734	28,040	29,734	36,511	37,441	24,179	177
Income from investments	1,261	1,160	1,075	442	539	465	299
Provisions for depreciation and depletion	5,711	5,539	2,735	2,261	1,992	1,158	—
Provisions for income taxes and NWT royalty	4,500	5,200	7,700	—	—	160	—
Net earnings	20,784	18,461	20,316	34,560	34,680	23,301	476
Net earnings per share	4.60	4.09	4.50	7.65	7.68	5.84	0.12
Dividends	40,647	18,065	20,324	22,582	24,840	—	—
Dividends per share	9.00	4.00	4.50	5.00	5.50	—	—
Retained earnings for the year	(19,863)	396	(8)	11,978	9,840	23,301	476
FINANCIAL POSITION							
Cash and marketable securities	$ 9,950	$10,380	$13,571	$ 5,799	$ 3	$ 3,714	$ 8,604
Working capital	10,015	25,373	20,201	20,881	11,844	9,585	8,787
Fixed assets—net	48,270	52,097	55,210	51,121	47,992	22,111	15,638
Total assests	70,576	81,761	83,918	75,069	63,355	34,034	26,387
Deferred income taxes	3,700	3,300	2,700	—	—	—	—
Shareholders' equity	55,281	75,144	74,748	74,756	62,778	26,618	3,317
OTHER STATISTICS							
Capital expenditures (net)	$ 2,175	$ 2,425	$ 6,823	$ 5,390	$27,873	$ 7,631	$ 9,899
Lead and zinc in ore mined (1,000's of tons)	424	382	372	373	352	197	7
Canadian average price—lead (cents/pound)	15.81	15.16	13.44	14.00	14.94	15.50	13.42
Canadian average price—zinc (PW)	15.32	14.64	13.50	13.87	14.50	14.50	13.57